



Taxation is serious business. How to pay for what America needs should be at the core of a thoughtful policy and political discussion. Unfortunately, when Congressional discussions are guided by campaign rhetoric, it is hard to have any thoughtful conversations on this challenging issue. Capitol Hill has been trapped in a twilight zone on tax issues for years, making a reasonable discussion on revenue extraordinarily difficult, if not impossible.

### Background

The simple fact is that we are an aging and growing Nation. Our tax collections in recent years have fallen due to a combination of the near economic collapse and the maddening slow economic recovery, which, together, with the series of tax cuts since 2001, have reduced total collections to levels not seen since Harry Truman was President. And they continue to lag.

As important as it is to do business differently, to rein in defense spending, reform our bloated agricultural programs, and improve the value we receive from our health care dollars, our the tax system itself must be addressed. More revenues are required to meet our needs, service the debt, and avoid more borrowing.

Most Americans understand this. While no one wants to pay higher taxes, the public understands and will support tax provisions if done right: balanced, simple, and fair. The worst tax is a tax on our future, the result of unsustainable spending and debt, coupled with tax cuts for people who don't need or deserve them. The second worst tax is the complex mess we inflict on the public right now. The tax system has a compliance cost to taxpayers of over \$160 billion a year for a system that is unfair.

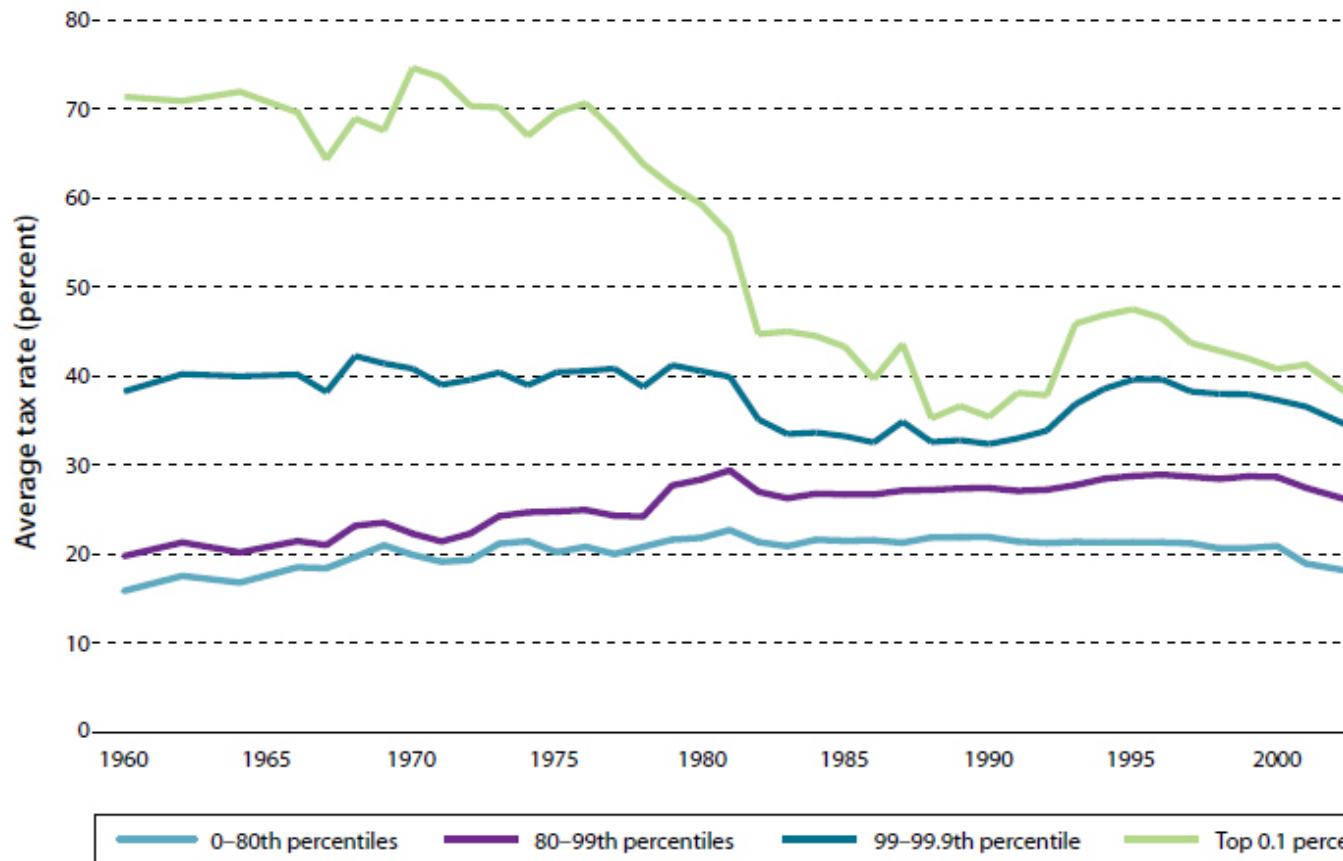
There are only a few tax choices we should examine and discuss before we start arguing about the ultimate solution. We can only tax work, wealth, consumption, user fees, investment. We can also tax what we don't like, the so-called sin taxes, like pollution or tobacco. Finally there are royalties for what, if anything, we get back when we give away public wealth like oil, gas, gold, and other valuable minerals. This is not an insignificant source of revenue, going not to some faceless government, but for the public. This is too seldom discussed in the context of paying for services or reducing the debt. All seven have advantages and disadvantages, but we should be clear-eyed about them.

### Solution

This year Congress will consider before December 31 the possible extension of all of the expiring tax provisions. Absent changes, analysis by the non-partisan Congressional Budget Office finds that such an extension will cost \$5.4 trillion to extend all the expiring tax provisions for the next 10 years. This would be a good place to start in reforming the tax system and collecting badly needed revenue. These provisions have badly reduced the overall fairness of our tax system.

FIGURE 7.

Income Tax Rates by Income Group: Tax rates for the very wealthy have dropped dramatically over the past forty years, while remaining relatively flat for most Americans.



Source: Piketty and Saez (2007).

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